Market Research

Larry Floyd, DAU

Acquisition Community Symposium

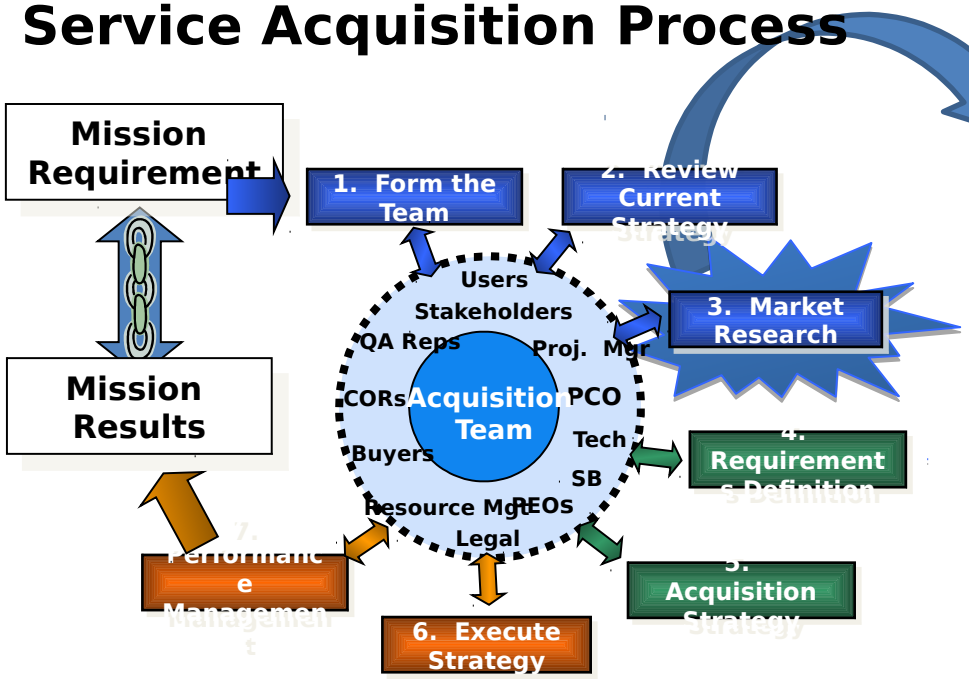
Understanding the Nuts and Bolts of Acquiring Services

Discussion Topics

- Market Research – The Basics
- DoD Market Research - Current Efforts
- Professional Services Market Segment - Recent Research Results and Implications
- DAU Training Opportunities

Market Research - Step 3 of 7-step Process

Service Acquisition Process



Market Research Sub-elements

- 3.1 Take a team approach to market research
- 3.2 Determine data sources
- 3.3 Develop a standardized interview guide
- 3.4 Conduct market research (include both providers and consumers)
- 3.5 Request information from service providers
- 3.6 Analyze market research
- 3.7 Document market research and trends

Sources of Information

- What experience have you had conducting Market Research?
- What are some good sources of Market Research data?
- What are some of the challenges associated with compiling Market Research data?

Sources of Information (cont'd)

POTENTIAL SOURCES OF MARKET INFORMATION

SECONDARY RESEARCH

- Wall Street Analyst reports on industries and companies (e.g. Thomson, a consolidated resource for analyst reports)
- Company 10K and annual reports
- Research providers (e.g. Gartner, AMR Research, IBIS World, Forrester, etc.)
- Industry publications/journals
- Industry associations
- General news sources
- Internet research
- Government databases/tools, including MaxPrac Analysis Tool (OSBP)

PRIMARY RESEARCH

- Interviews with:
  - Industry experts (e.g. Wall Street analysts, associations, etc.)
  - Companies/suppliers
  - Trade associations
  - Internal Experts
- Industry Engagement
  - RFI (request for Information)
  - Supplier perception surveys
  - Industry days
  - One-on-one interactions

The key takeaways are to use several sources of data and to use primary research as needed

Source: Censeo Consulting, Market Intelligence Webinar, 20

Public-Sector Counterparts

- Cross-agency cooperation and collaboration
  - Consider DoD and non-DoD public agencies
  - May even find solutions with state and local agencies
  - Many federal agencies have “solved” your problem
  - Could provide services through an interagency agreement or through an existing multiple-award contract vehicle
  - Agencies with similar needs may be able to provide lessons learned and best practices

Private Sector Companies

- Contact with vendors and suppliers for purposes of market research is encouraged
- Should understand commercial offerings, capabilities, and business practices
- Some of the traditional ways to do this include
  - Issue “sources sought” type notices
  - Requests for Information
  - Hold pre-solicitation conferences
  - Cold Call! Pick up the phone and call company representatives

One-on-One Meetings With Industry

- FAR 15.201(c)(4) includes one-on-one meetings with potential offerors as one technique for promoting early exchanges of information
- One-on-one meetings are more effective than pre-solicitation or pre-proposal conferences
- Effective in focusing on:
  - Commercial and industry best practices
  - Performance metrics and measurements
  - Innovative delivery methods for the required services
  - Incentive programs that providers have found effective
- One-on-ones can:
  - Expand the range of potential solutions
  - Change the very nature of the acquisition
  - Enhance the performance-based approach
  - Be your first step to an “incentivized” partnership
- FAR 15.201(f) provides “General information about agency mission needs and future requirements may be disclosed at any time.”

DoD-wide Market Research Current Efforts

- DoD Vendor Communication Plan (Draft)
  - Emphasizes frequent, fair, level and transparent communications
- Joint DoD Market Research Working Group recently formed
  - Conduct market research and share information
- Draft DoD Guide, “Market Research Report Guide for Improving the Tradecraft in Services Acquisition”
- Launch Market Research/Market Intelligence website in May 2012

Market Research Results Professional Services Segment

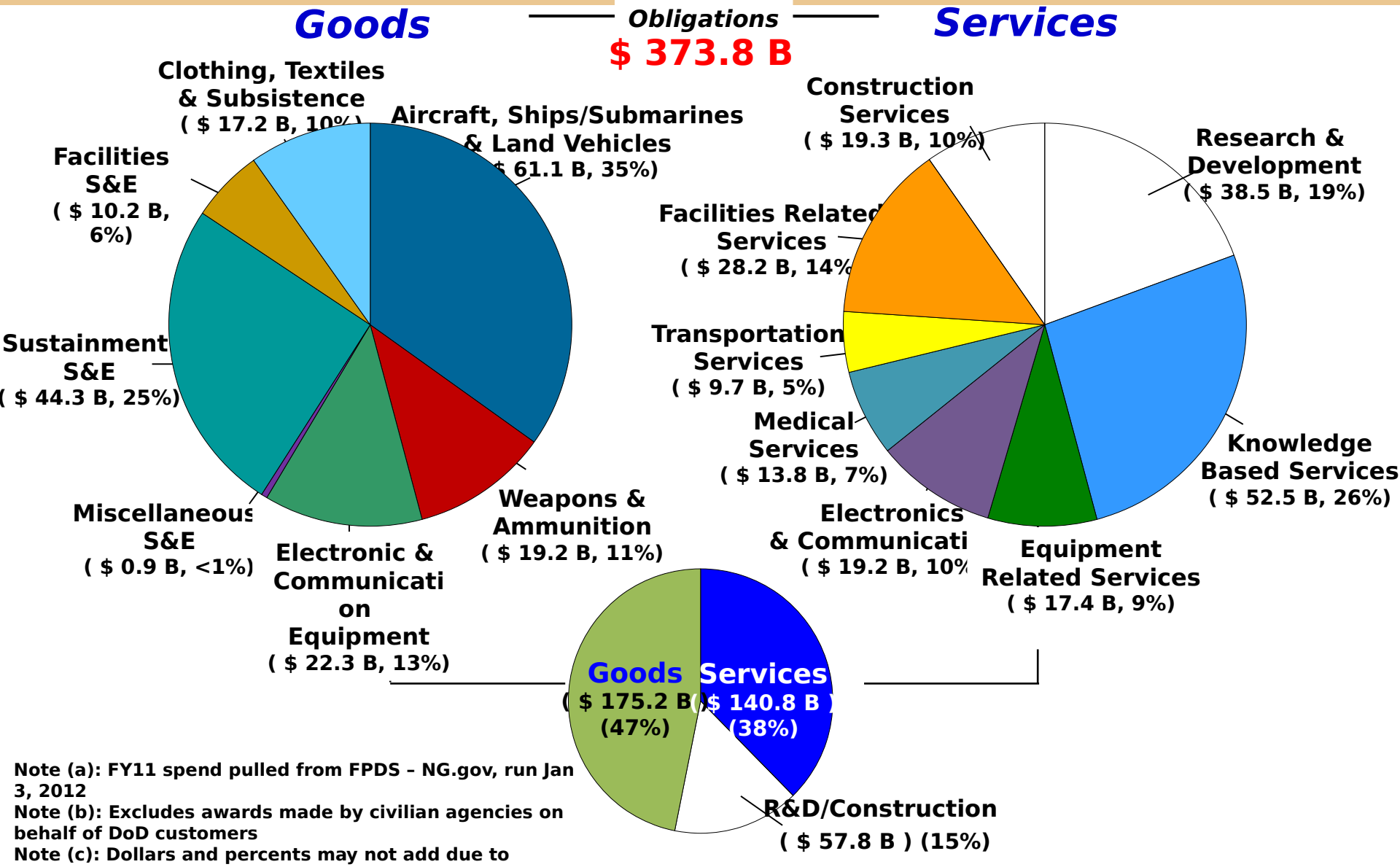
- Aerospace Industries Association, National Defense Industrial Association, Professional Services Council jointly assessed potential industrial base impacts from severe budget reduction scenarios by convening a joint Defense Industrial Base Task Force in 2011
  - Small, medium and large aerospace and defense companies across market segments (manufacturing and services)
  - Twenty-eight (28) companies rankend in Defense News' Top 100 Defense Companies
  - Provided report results to SecDef on 11 Nov 2011
- Professional Services Council issued its own addendum to the joint Task Force report – Summary follows

Market Research: Professional Services

Keh Market Research Topics	Data
Market Segmentation	• See following slide
Market Size	• $140.8B market (DOD spend, FY 11)
Market Growth	• From 2010 to 2011: began to decline overall • Professional services market underperformed the overall federal budget for the first time in a decade • Cybersecurity, IT, equipment maintenance are expected to stay in high demand for the future and will remain stable at a low share of the budget cuts • Surge of weapons, equipment and services to the battlefield and OCO in a manner DOD has come to expect
Government Market	• Government investment and associated service providers' access to capital will likely decrease • Large numbers of jobs will be lost, innovation will be reduced, and the ability to support rapid

Source: AIA/NDIA/PSC Survey

Total DoD Dollars Obligated in FY11


Goods
Obligations
$ 373.8 B
Services
Clothing, Textiles & Subsistence ($ 17.2 B, 10%)
Aircraft, Ships/Submarines & Land Vehicles ($ 61.1 B, 35%)
Facilities S&E ($ 10.2 B, 6%)
Sustainment S&E ($ 44.3 B, 25%)
Miscellaneous S&E ($ 0.9 B, <1%)
Electronic & Communication Equipment ($ 22.3 B, 13%)
Weapons & Ammunition ($ 19.2 B, 11%)
Construction Services ($ 19.3 B, 10%)
Research & Development ($ 38.5 B, 19%)
Facilities Related Services ($ 28.2 B, 14%)
Transportation Services ($ 9.7 B, 5%)
Medical Services ($ 13.8 B, 7%)
Electronics & Communicati ($ 19.2 B, 10%
Knowledge Based Services ($ 52.5 B, 26%)
Equipment Related Services ($ 17.4 B, 9%)
Goods ($ 175.2 B) (47%)
Services ($ 140.8 B) (38%)
R&D/Construction ($ 57.8 B) (15%)

Note (a): FY11 spend pulled from FPDS – NG.gov, run Jan 3, 2012
Note (b): Excludes awards made by civilian agencies on behalf of DoD customers
Note (c): Dollars and percents may not add due to rounding

Market Research: Professional Services(cont'd)

Key Market Research Topics	Data
Value Chain	• Industrial base could be significantly damaged as quality suppliers exit the market and higher risk suppliers take their place, e.g. Overseas Contingency Operations • Quantifying impacts on reduced spending is near impossible due to high degree of nonperformance-based contracts being used • Many service contracts are associated with current and planned defense programs, and services that support the department's analytical and planning activities, i.e. knowledge-based services
Cost Structure	• Direct Labor is the major cost component (34%)

Source: AIA/NDIA/PSC Survey

Market Research: Professional Services (cont'd)

Key Market Research Topics	Data
Cost Drivers	• Local and job-specific wage rates • Compliance with federal regulations (all types) • Compliance with requirements to provide pricing data during negotiations and earned value data during performance • Time required to compete source selection (PALT and churn) • Use of labor-saving equipment
Pricing	• During the recession, customers have relied on price competition, leading to falling revenue • T&M/L-H contracts are common – trending away • Different response times and service levels are associated with different price points (i.e., higher service levels cost more)
Funding stability	• Governance through Continuing Resolutions limits

Source: AIA/NDIA/PSC Survey

Market Research: Professional Services (cont'd)

Key Market Research Topics	Data

Business Size	• Small businesses (SB) dominate the services sector in both numbers and capabilities
	• SBs do not dominate sector in dollar value of awards
	  • In fiscal years 2009-10 small businesses awarded 23% of all service contract dollars
	  • Significant dollar market share in IT, professional and administrative services, and maintenance of real property
	• Mid-tier business are continually "squeezed" by large and SBs

Competitive Dynamics	• Low barriers to entry • Light regulation • High level of competition
Market Trends	• Increased use of low-price technically acceptable best value method

Source: AIA/NDIA/PSC Survey

Market Research: Professional Services (cont'd)

Key Market Research Topics	Data

Performance Metrics	• Generally based on:
	  • Response time
	  • Complaints threshold
	• Examples:
	  • Response within 4 hours 90-95% of the time (examples vary)
	  • No more than 0-2 complaints per quarter (examples vary)

Focus Areas to help mitigate impacts of budget cuts	• Buyer-seller collaborative communications • Open review overly burdensome administrative processes • Avoid using vendor profit margins as arbitrary sources of cost savings • Reiterate importance of best value tradeoff process for complex, mid-to-high-end services • Immediately enhance performance management of services contracts

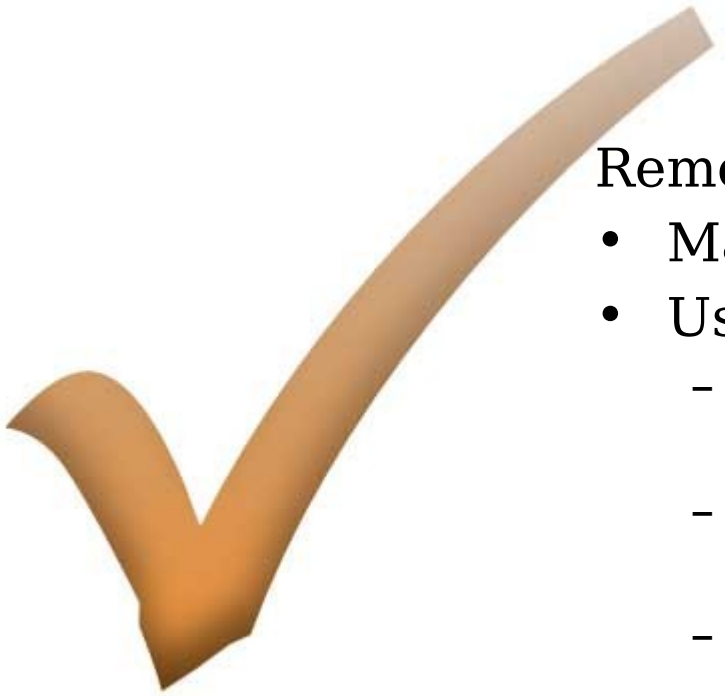
Source: AIA/NDIA/PSC Survey

DAU Training Opportunities

Opportunity	Description
CLC 004	*Market Research:* 3-hour online learning module (http://icatalog.dau.mil/)
Service Acquisition Mall	*Service Acquisition Mall:* 7-step process portrayed in online videos, tools and templates available 24x7 (http://sam.dau.mil)
ACQ 265	*Mission Focused Services Acquisition: 4-day, 7-step process resident classroom case-based course* (*Apply through Unit training monitor*)
TTC 014	*Service Acquisition Workshop:* 4-day, 7-step process intact team training facilitated workshop (http://icatalog.dau.mil/onlinecatalog/courses.aspx?crs_id=1631)
Community of	*Market Research Knowledge Repository*

Source: DAU icatalog and ACC

How to Apply This Information



Remember:

- Market Research is a continuous process
- Use it to:
  - Identify acquisition risks and/or information to mitigate risks
  - Identify current and emerging market trends
  - Understand market dynamics
    - Is this a Commercial service?
    - Are there capable Small Businesses?
    - Is it a Competitive Market?
  - Identify your leverage in the market
- Understand that requesting information from suppliers is critical

BACK-UP SLIDES

Market Research Analysis

Collect *Market D*

Define Market Segments → Develop View of Basic Market Data → Understand Value Chain and Cost Drivers → Identify Market Competitive Dynamics → Review External Best Practices

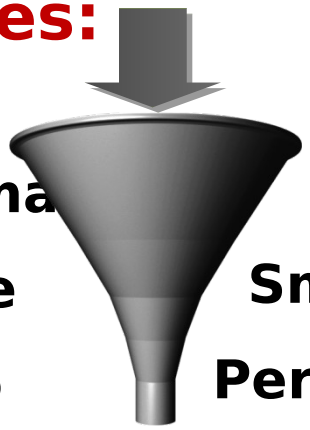
sess from many angles:

New technologies

arket Trends (Supply/Dema

Market Leverage

Compare/Contrast to Needs



Pricing/Value Comparisons

Competition

Small Business Opportunities

Performance Metrics

Conduct *Market Analysis*:

Whole Team reviews assessments

Market Research Report

Business Case for Change

Key Market Research Topics

- Define Market Segments
- Develop View of Basic Market Data
- Understand Value Chain and Cost Drivers
- Identify Market Competitive Dynamics
- Review External Best Practices

Source: Censeo Consulting Group

Key Elements of Market Segmentation

Understanding how the supply market is segmented helps focus analysis
and target key suppliers.

Element	Questions Addressed Through Market Segmentation
Identify Market Segments	• How do suppliers of IOSS services segment or differentiate themselves? • How do customers view market segments for IOSS requirements? • What are the relevant segmentation variables?
Identify Relevant Segments	• Which segments are most relevant for the commodity being purchased? • How do the segments line up with our purchasing requirements? • How do the segments line up with our organization structure?

Source: Censeo Consulting Group

Key Analytical Elements of Basic Market Data

Market trends, growth rates, pricing practices and other key market data provide useful business context for understanding the industry as a whole.

Element	Questions Addressed Through Understanding Basic Market Data
Market Size	• What is the annual revenue for the IOSS services market?
Market Growth	• What is the historical growth rate for this market? For each segment? • What is the projected growth rate? For each segment?
Pricing Analysis	• How are products/services priced for this market? For each segment? • What are the trends in pricing in the IOSS services market?
Market Share	• Who are the key players in each segment? • What is each player's share of the market? • How fragmented is the market? How many suppliers are there? • What share of the market does the Government represent (as a customer)?
Small Business	• What is the role of small businesses in this market? For

up

Key Elements of Industry Value Chain and Cost Driver Analysis

An analysis of an industry's value chain and key drivers of cost provides additional insights into acquisition strategy options

Element	Key Questions Addressed Through Understanding Value Chain & Cost Drivers
Identify Value Chain	• What is the value chain for the relevant market segments? • What other industries are involved in the value chain? • What insights does it reveal?
Understand Cost Structure & Profitability	• What are the different elements of IOSS services suppliers' cost structure? • What is the profitability / margin for these suppliers?
Identify Cost Drivers	• What are the main cost drivers for the main elements of the IOSS services suppliers' cost structure? • What insights can we derive?
Identify Influence Options	• Which cost drivers can we influence? • What might we be able to do differently in our approach to acquisitions, management of supply relationships, and other internal processes that might help lower suppliers' total cost to serve us as a customer?

Market Competitive Dynamics: Key Elements of Competitive

Understanding the competitive environment of a market may provide insights into supplier behaviors and possible negotiation levers .

Element	Key Questions Addressed Through Analysis of Market Competition
Determine Competitive Environment	• How do suppliers in the IOSS services market compete? What are the key differentiators? • Are there new entrants into the supply market? • What are the alternatives or substitutes for this product or service?
Identify Buyer Leverage	• How significant is our business to the supplier? • What is the criticality of this product or service to fulfilling our mission? • What are the costs associated with switching suppliers? • What are the costs associated with switching to an alternative or substitute?
Identify Key Trends	• Are there any trends that influence buyer power in the supply market? • Are there any economic factors that influence buying power?

Key Elements of Best Practices Research

A review of the acquisition approaches used by other Government agencies and the private sector can potentially identify best practices to be incorporated into the team's acquisition strategy .

Element	Key Questions Addressed Through Analysis of External Best Practices
Government Best Practices	• How do other Government agencies who procure IOSS services approach such acquisitions? • What internal processes or policies are in place at other agencies to facilitate efficient acquisitions of IOSS services?
Commercial Best Practices	• How are large commercial organizations addressing acquisition of IOSS services? • What approaches, tactics and practices are considered most effective in the commercial market? • How applicable are commercial best practices to the Government context? • Are there specific metrics, targets or other measures of effectiveness in the commercial sector that can be incorporated into Government acquisition and management of this commodity?

Market Research Template

- Market Research Report Guide for Improving the Tradecraft in Services Acquisition (DRAFT), April 2012

- Prepared by the Joint Market Research Working Group for OSD

Market Research Documentation

- At a minimum the Market Research Report should:
  - Explain the needs driving the acquisition
  - Identify the team members
  - Discuss approach taken to conduct the research
  - Identify sources contacted
  - Summarize learning, including positives and negatives
  - Enable the team to make decisions concerning direction

- Beyond that the Market Research Report should:
  - Be written in a clear, non-bureaucratic style
  - Be scoped appropriately for the size/nature of the acquisition
  - Be updated as the acquisition continues
  - Be useful to other teams with same/similar assignments

Market Research Documentation

- **Market Research Objectives**
- *Guidance: What do you hope to gain from market research?*
- *Refinement of the requirement in industry terms.*
- *Increased competition.*
- *Increased small business participation.*
- *Understanding of cost.*
- *Develop effective contract structure*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION , April 2012

Market Research Documentation

Service Description

- *Guidance: Include a description of the service to be addressed by this market research report.*
- *What is the service?*
- *What are the components or elements of the service?*
- *When is the service required?*
- *Where will the service be performed?*
- *Are there unique requirements?*
- *Are there mandatory source requirements?*
- *What other government agencies are buying the service?*
- What current contract vehicles are available?

Source: MARKET RESEARCH REPORT GUIDE FOR IMPROVING THE TRADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Background

- *Guidance: Provide a short narrative on the requirement for which this service will support. Include information relative to the previous awards such as:*
- *Is the requirement new? If not, how long has the service been required?*
- *Is there available market research information already done by others in government?*
- *What past acquisition strategies were used?*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Background (cont'd)

- *What past government work has been performed by potential suppliers?*
- *What past efforts have been taken to remove competitive barriers?*
- *What are some problems encountered during past contract performance?*
- *What is the past performance baseline?*
- *What changes have occurred in the market place (suppliers, trends, technologies)?*
- *What are the lessons learned/best practices?*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Potential Supplier Information

- *Guidance: build the list of potential vendors and known sources that could be solicited to provide the service required.*
- *Identify name, location, point of contact and an assessment of their capabilities to meet our requirements in terms of performance, cost, schedule and risk.*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Potential Supplier Information (cont'd)

- *Identify the number of sources contacted; identify whether they were large business, small business, small/disadvantaged business, Section 8A business, woman-owned business, government/non-government.*
- *Describe efforts to locate sources and explain the rational used to exclude sources.*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION April 2012

Market Research Documentation

Small Business Opportunities

- *Guidance: Provide an assessment of the potential opportunities for small business set aside and direct award opportunities.*
- *Is the service suitable for small business?*
- *Can the requirement be segmented to include small business?*

AbilityOne Program

- *Guidance: In accordance to FAR (2011) Part 8.002(a)(2), determine if the service is provided by the AbilityOne Program* (www.abilityone.gov)

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Performance Requirements

- *Guidance: State the critical performance requirements which the service must meet.*
- *What are the performance requirements and how are they measured? If the requirement is not performance based, why?*
- *Are the requirements military unique or can be they be acquired in the commercial marketplace?*
- *What are the performance trade-offs to better accommodate the commercial market?*
- *How does industry sell the service and are the requirements written in those terms?*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION April 2012

Market Research Documentation

Market Intelligence

- *Guidance: Describe any available commercial factors.*
- *What is the availability of the service?*
- *What is the demand for the service?*
- *What is the maturity of the service?*
- *How many suppliers are in the market and market share?*
- *What is the Government's market share?*
- *What is the pricing structure?*
- *What is the small business footprint?*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Market Intelligence (cont'd)

- *Are socio-economic factors applicable?*
- *What is the supply chain?*
- *How are the services segmented?*
- *What business, trade, legal, political and other developments affect the market?*
- *What is fair/reasonable market price for the industry, which may include an assessment of available price data, price ranges, known pricing issues, or an explanation of price variations?*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Market Intelligence (cont'd)

- *What are the applicable industry standards, regulations, trade journals, or process guides germane to the service to be acquired?*
- *Identify any known environmental or safety regulations that affect the service being provided. Identify standard industry terms and conditions offered to commercial customers in the market place.*
- *Provide your assessment of the government's leverage in the marketplace, such as being the only buyer, making a minority of buys in the market, making the majority of buys, or being one buyer among many.*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE TRADECRAFT IN SERVICES ACQUISITION, April 2012

Market Research Documentation

Conclusions and Recommendations

- *Guidance: Summarize your data analysis with recommendations for:*
- *acquisition strategies to pursue (i.e. Commercial acquisition, 8A direct, small business set aside, sole source, full & open, native American direc or Hubzone)*
- *list of potential contract vehicles that already exist which may be employed to satisfy your requirement*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION April 2012

Market Research Documentation

Conclusions and Recommendations (cont'd)

- *quality and thoroughness of the government's technical performance documents and configuration control data to include suggestions for improvement before contract solicitation*
- *relevant risks to be considered as part of any source selection activities*
- *specific contract terms and conditions*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION April 2012

Market Research Documentation

Market Research Techniques Used

- *Guidance: Describe the various methods used to arrive at the market research findings. Examples of techniques that may be used are: Internet searches, industry days, one-on-one industry sessions, Requests for Information (RFIs) to Industry (Solicitation for Information or Planning Purposes), Commerce Business Daily announcements, etc.*

Source: MARKET RESEARCHREPORT GUIDE FOR IMPROVING THE T RADECRAFT IN SERVICES ACQUISITION April 2012